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Acid rain envoys recommend $5-billion program

Don Minner
Associate Editor

WASHINGTON, D.C.—Special envoys appointed by President Reagan and Canadian Prime Minister Brian Mulroney to look into the problem of acid rain have recommended that the U.S. initiate a five-year, $5-billion program to commercially demonstrate new clean coal technologies.

In addition, U.S. envoy Drew Lewis and Canadian envoy William Davis recommended the continued practice of bilateral consultations and information exchange. Also, they said a greater emphasis should be placed on research concerning transboundary acid rain issues.

Said Lewis, "This report is a significant step forward for both the United States and Canada. The technology demonstration program should help us find cheaper controls. The research program should help ensure that any future control program will achieve its intended results. The cooperative activities will foster ongoing, high-level discussions between our two countries. In short, our recommendations today prepare a very solid base for future action."

Serious environmental concern

In a letter to President Reagan, Lewis wrote that "there should be no doubt that acidic air emissions are being transported through the atmosphere and over the U.S./Canadian border. That transboundary air pollution is causing serious environmental concern in both countries because of the ecological, economic, and cultural value of the resources at risk."

Important step forward

Both envoys were appointed to their positions in March 1985. Their report is scheduled to be discussed during a March meeting between Reagan and Mulroney. The President called the report "an important step forward", but has not yet endorsed its recommendations.

Davis, in a letter to Mulroney, said, "Now that our own acid rain abatement program is being implemented, it is all the more important that our American friends show in some tangible way that they too are ready to take action to reduce transboundary pollution."

In March 1985, the Canadian government announced an emissions control program to reduce SO_2 emissions from 1980 levels 50 percent by 1994.

By recommending that the U.S. government share in funding demonstration projects with industry, the envoys said that commercial availability of more cost-effective control technologies will be accelerated.

Report states

The report states, "If the menu of control options were expanded, and if the new options were significantly cheaper yet highly efficient, it would be easier to formulate an acid rain control plan that would have broader public appeal."

The Clean Air Coalition called it "just another stall."

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More generating units sold for leasing purposes

BARRINGTON, IL—Leveraged leases were popular with utilities over the last few months as several sold ownership interests in generating units to institutional investors.

Montana Power Company (MPC) sold its 30 percent share of the Colstrip-4 coal-fired unit for $280 million. Oglethorpe Power Corp. (OPC) sold its 60 percent interest in the coal-fired Scherer-2 unit for $395 million. And, in the first leveraged lease involving a nuclear facility, Public Service Co. of New Mexico (PSNM) sold its 10.2 percent interest in Palo Verde-1 for $325 million.

All three utilities will now lease the plants back. Leases involving electric generating plants are attractive to some investors because they allow the buyers to take tax advantages with the rapid depreciation of the plants.

MPC received Montana Public Service Commission (MPSC) approval recently to go ahead with a plan to sell its portion of the Colstrip-4 coal-fired plant to a group of investors.

"This puts in place the mechanism for completing the leveraged lease," said utility spokesman Cort Freeman.

Montana Power's 30 percent share of the 700 MW unit's output will be bought by SGE Partners, a joint venture of GE Credit Corp. and Shell Oil, and Burnham Leasing Corp. for $75 million in equity. The other $205 million in debt will come from a group of 19 companies.

Montana Power will then sell the power in the wholesale market. In return, the utility guarantees the investors a return on their investment for the life of their 25-year lease, he said.

The utility has invested $266 million in the unit, which is expected to be ready for commercial operation in April. Freeman explained that the purchasers will pay Montana Power $266 million and put $14 million in a trust to ensure completion of the plant.

Freeman said the purchasers didn't want to be subject to state regulation. He stated that the MPSC ruling means the output of the unit will be regulated by the Federal Energy Regulatory Commission. If Montana Power decides to purchase some of the power, Freeman said the transactions will be subject to commission regulation.

The utility said it will use proceeds from the sale to retire outstanding debts.

Other owners

Other owners of the unit include Puget Sound Power & Light (25%), Washington Water Power Co. (15%), Portland General Electric (20%), and PacifiCorp (10%).

At the end of the 25-year lease, the utility has four options. Freeman pointed out the company can walk away; extend the lease; purchase its share of the unit; or, pay a fixed rental fee.

Oglethorpe Power, a power supply cooperative in Atlanta, said the leveraged lease of its interest in the Scherer plant "could generate tens of millions of dollars in savings for the corporation."

The cooperative signed a 27-year lease, which involves IBM, Ford Motor Credit Corp., Chrysler Financial Corp., and HEI Investment Corp.

According to OPC's corporate finance division manager Eugene Heckl, the co-op will use $362 million to repay outstanding debts. About $33 million will be placed in a reserve account to pay capital gains taxes and other costs associated with the transaction.

Heckl said the sale will help OPC reduce the rate impact of its owner-

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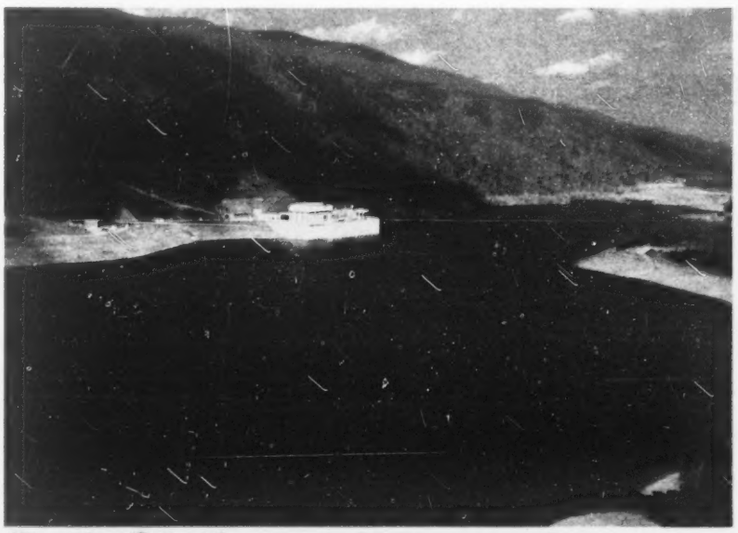

Bath Station enters service

Virginia Power's $1.7 billion Bath County Pumped Storage Station has begun generating electricity for the utility's 1.7 million customers. The facility is the world's largest hydroelectric pumped storage plant. Located in the mountains of western Virginia, the facility is capable of generating 2.1 million kilowatts. Virginia Power estimates the station will save its customers more than $50 million annually in fuel charges. The Allegheny Power system companies have a 40 percent ownership in the facility.

New accounting rules proposed for phase-ins, disallowances

STAMFORD, CT—After two years of study, the Financial Accounting Standards Board (FASB) released a set of three amendments to the group's statement No. 71 that sets guidelines for certain utility accounting procedures.

The proposed amendments deal with accounting procedures for phase-in plans, abandonments, and disallowances of costs of newly completed plants.

According to the FASB, those specific areas were not addressed in FAS 71 when it was first issued in 1983.

Paul LePage, the FASB project manager who helped draw up the amendments, said the board wanted to create "realistic accounting for the events that are occuring in the industry."

The proposal says that the deferred costs of phase-in plans should be capitalized if three provisions are met. The plan has to be agreed to by the state regulators and it has to specify when recovery will occur. Also, all deferred amounts have to be recovered within 10 years.

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News Briefs

JILL BUCHHOLZ, Editorial Assistant

PSE&G petitions for rate increase

● Public Service Electric and Gas Co. recently petitioned the New Jersey Board of Public Utilities for a 14.2 percent net rate increase, or $633.6 million. The request calls for an increase in electric revenues of $569 million, or 18.8 percent, and gas revenue increases of $64 million, or 4.5 percent. According to PSE&G Executive Vice President-Finance, Everett L. Morris, the increase is needed to finish the Hope Creek Generating Station. Morris added that the station, which is 99 percent complete, represents the last construction project PSE&G will undertake during this century. Hope Creek is scheduled to load fuel in the first quarter of 1986 and should begin commercial operation by the second half of this year.

'85 was record year for U.S. nuclear power production

● The U.S. produced a record 380 billion kilowatt-hours of nuclear power during 1985, according to the Atomic Industrial Forum, Inc. (AIF). By September of last year, nuclear power accounted for 15.5 percent of the nation's supply and by the end of the third quarter production was almost 17 percent higher than during the same period in 1984. As of Dec. 1985, 97 U.S. plants were in operation, with 31 units still under construction. Of those 31 units, 26 are scheduled for service by 1990 and five have uncertain completion dates. AIF reports that for the first half of 1985, the forced outage rate dropped to 9.1 percent, the lowest level in history. By Sept. 1985 the yearly average of automatic "scrams" (rapid shutdowns caused by mechanical failure) fell to 3.7 per unit, down from 4.4 in 1984 and 6 in 1980. Last year also marked the completion of Gulf States Utilities Co.'s River Bend-1 plant. Taking six years to build, AIF noted it was the third U.S. plant since 1983 to be finished in less than 80 months. Nuclear power cost more than power produced from coal, according to AIF. Coal-fired electricity dropped from 3.5 cents to 3.4 cents per KWh, while the cost of a kilowatt-hour of nuclear electricity rose from 3.5 cents to 4.1 cents.

Construction decline expected by public utilities

● Construction by investor-owned public utilities is expected to decline through the end of this decade, according to a forecast by Irving Trust Co. The firm projects that the industry will have spent more than $25.8 billion on construction projects in 1985, $10.2 billion of which was externally financed. By 1989, construction expenditures are expected to total less than $12 billion.

State Supreme Court upholds investment rate recovery

● The Washington State Supreme Court affirmed an order of the Washington Utilities and Transportation Commission to allow Puget Sound Power & Light Co. to recover its investment in the abandoned Pebble Springs Nuclear Project. Puget Power officially abandoned its 23.5 percent interest in Pebble Springs in 1982. The utility invested a net $47.7 million, which the commission held was recoverable in rates over a ten year period. The State Supreme Court's opinion upheld the lawfulness of rate recovery of abandoned plant costs and rejected the argument that such recovery was precluded by the "used and useful" language of the Washington statutes relating to ratemaking for electric utilities. Puget Power also is recovering its $81 million net investment in the Skagit/Hanford Nuclear Project, abandoned in 1983. Puget Power said it is unclear whether opponents of the Skagit/Hanford recovery will continue to press an appeal.

HECo's rate increase request denied

● The Hawaii Public Utilities Commission denied a 3.1 percent, or $16.6 million, rate increase requested by Hawaiin Electric Co. The utility asked for a 4.4 percent increase in Aug. 1984 for rising labor costs, material and capital, said vice president Harwood D. Williamson. Utility spokesman Doug Carlson expressed the utility's disappointment with the PUC's decision, but said HECo does not plan to appeal and will not be in any financial trouble without the increase. The company has not been granted an increase in rates since September 1983. Currently, HECo's customers are paying 7 percent less for electricity than when the request was originally filed.

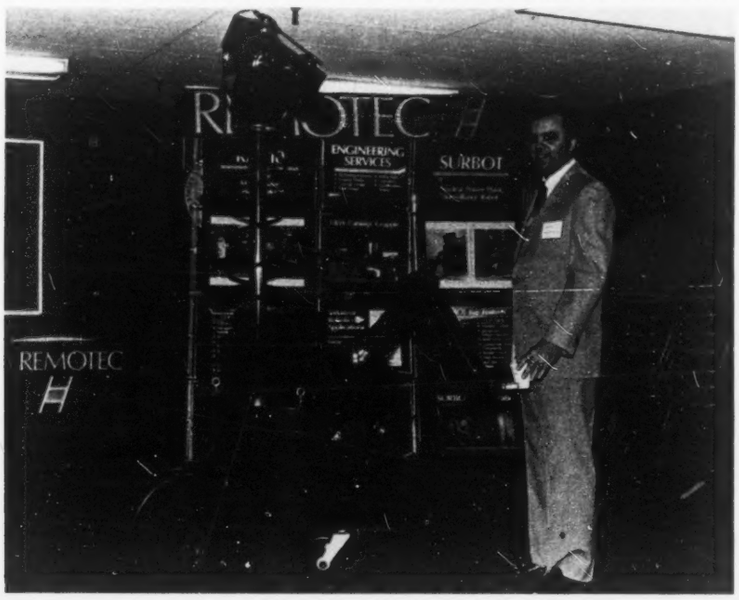
PECO can build Limerick 2

● Philadelphia Electric Company will proceed with plans to build the 1,055 MW Limerick 2 nuclear plant. The utility agreed to charge ratepayers no more than the $3.197 billion the utility says will take to complete the 31 percent-finished unit. By a 2-1 vote, the Pennsylvania Public Utilities Commission said in December that any expenditures over the amount of the cost cap can not be recovered through ratepayers. Also, the commission said that if the capacity factor of Limerick 2 drops below 60 percent, Philadelphia Electric will not be able to charge ratepayers for the costs of replacement energy. The utility has invested about $897 million in the unit, which is 30 percent complete. Work was halted on the unit in 1982 after the PUC said that construction of two units at the same time was not financially feasible. Limerick 1 is expected to enter commercial operation sometime early this year. PUC Commissioner Bill Shane, the lone dissenter, said, "PECO's management is driving the economy of Southeastern Pennsylvania into decline because of its obdurate commitment to nuclear power, regardless of cost. The commission could have put a stop to this, but it has refused to do so. My only hope is that the courts will reverse this decision."

Palo Verde 2 licensed for low power testing

● Owners of the Palo Verde nuclear plant were issued a license in December by the Nuclear Regulatory Commission to load fuel and conduct low power testing of Unit 2. At full power, the pressurized water reactor will be capable of generating 1,270 MW. Owners of the unit are Arizona Public Service Co., the Salt River Agricultural Improvement and Power District, Southern California Edison Co., El Paso Electric Co., Public Service Co. of New Mexico, Los Angeles Dept. of Water and Power, and Southern California Public Power Authority. Unit 1 was licensed for full power operation June 1, 1985.

NRC holds robot demonstration



"SURBOT", a mobile surveillance robot designed to help cut the radiation exposure of workers in nuclear power plants, hands a cup to an attendee of the robot's demonstraiion in November. The robot was built under a contract from the Nuclear Regulatory Commission for about $300,000. According to the NRC, SURBOT has three television cameras (one in color) that can scan equipment in high radiation areas. Power comes from a control console and a flexible 150-ft cable controlled by a reel fastened to the base of the robot. It also is equipped with a variety of sensors to take measurements of radiation, temperature and humidity. The robot's single arm can open or close valves, pick up debris and operate power tools. Demonstration testing of SURBOT in a commerical nuclear plant is scheduled for sometime early this year.

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C&SOE takes $66M write-off for Zimmer

COLUMBUS, OHIO—Columbus and Southern Ohio Electric Co. (C&SOE), a subsidiary of American Electric Power, said it will take a $66 million write-off for its investment in the Zimmer plant, as a result of a settlement agreement approved in November 1985.

C&SOE Chairman W.S. White, Jr. stated that the write-off would reduce American Electric Power's 1985 earnings by approximately 35 cents per share. However, White said in a recent report to shareowners that a reduction in the common stock dividend is not anticipated.

The agreement provides for the disallowance, for future ratemaking purposes, of a portion of the investment in Zimmer by its owners, C&SOE, Cincinnati Gas & Electric Co., and The Dayton Power and Light Co.

Rate shock continues to impact utilities, says report

CLEVELAND—According to a recent survey of financial and accounting developments in the utility industry, rate shock continues to have the greatest potential impact on utilities, regulators and consumers.

Price Waterhouse, which conducted the survey of 65 leading investor-owned utilities, said the companies are concerned about rate phase-in plans, mandatory construction and management audits of recently completed generating units, and continued construction delays, property losses and potential plant abandonments.

Paul R. Bjorn, chairman of the firm's Public Utilities Industry Services Group, stated, "Financial reporting and accounting practices of public utilities are under critical review by the Financial Accounting Standards Board (FASB) due to many issues currently facing public utilities." (see p.1 story)

In January of 1985, the FASB decided to look into the Statement of Financial Accounting Standards No. 71 (FAS 71) in order to determine if the existing accounting rules are effective in the current utility climate. Throughout last year, the FASB has been readdressing FAS 71.

Economic realities

He said the FASB is principally concerned whether utilities' financial statements reflect the economic realities of the utility industry.

Bjorn pointed out that the survey shows that 18 of the 65 utilities either adopted or proposed rate phase-in plans in 1984 to combat rate shock. FAS 71 offers no guidance for the accounting treatment of phase-ins.

Also, pointed out the survey, there is an increased propensity of regulators to require mandatory construction and management audits of recently completed generating units. As a result regulators may partially or totally disallow construction costs from rate base and/or preclude the cost of service recovery of depreciation or operating expenses.

The survey found that 23 utilities disclosed potential or actual disallowances in 1984, compared to 14 in 1983. Twelve of the companies surveyed reported that prudency audits were either planned or threatened, while four utilities said audits were either scheduled or in process.

The FASB is studying whether amounts identified as being disallowed should be charged against results of operations in the current period or over the life of the generating unit.

Could be dramatic

Price Waterhouse noted that the results could be dramatic if utilities with rate moderation plans or partial disallowances are precluded from applying FAS 71.

"These utilities would have to report financial position and results of operations in the same manner as non-regulated businesses," said the firm in a survey report. "As a result, the comparability of financial reporting within the public utility industry would be reduced."

Bjorn pointed out that survey results show continuing construction delays by many companies as well as property losses and potential plant abandonments.

Uncertainties

"The reasons cited in our survey," he stated, "were uncertainties about future nuclear power, declining growth rates, and customer conservation."

Of the 65 companies queried, 24 reported construction delays, 34 reported property losses aggregrating $12 billion, and 13 disclosed situations which could lead to potential abandonment of units under construction (See charts). The Price Waterhouse report said potential abandonments disclosed in 1984 were about $14 billion.

Reasons for the delays

The main reasons noted for the delays included inadequate rate relief and corresponding lack of funds, delays in project approvals by applicable regulatory agencies, reductions in projected sales growth, higher construction quality requirements and, in the case of alternative fuels, lack of government grants and loan guarantees.

Price Waterhouse said the principal accounting question associated with construction delays is whether, and for how long, Allowance for Funds Used During Construction (AFUDC) and other costs should be capitalized. Of the companies reporting delays, 12 indicated that accrual of AFUDC is continuing.

Also, the survey discovered that 23 companies reported in excess of 50 percent of net income available for common stockholders attributable to AFUDC, a decline from 30 companies in 1983.

Property losses

Of the 57 property losses reported in 1984, the survey found that 31 were fully recovered through rates, eight partially recovered through rates, one was disallowed, 12 remained undecided, three had no discussion of the rate treatment, and two were written off without a request for recovery.

PROPERTY LOSSES AND POTENTIAL PLANT ABANDONMENTS

	1984	1983	1982
Property losses:			
number of companies reporting nuclear losses and non-nuclear losses, if applicable	31	31	30
number of companies reporting only non-nuclear losses	3	2	7
number of nuclear property losses	45	49	48
number of non-nuclear property losses	12	13	15
Potential plant abandonments:			
number of companies reporting possible plant abandonments	18	18	5
number of nuclear plants involved	10	11	5
number of non-nuclear plants involved	1	1	1

Source: Price Waterhouse

CONSTRUCTION DELAYS

	1984	1983	1982
Number of companies reporting delays	24	31	28
Number of nuclear plants involved	14	17	20
Number of non-nuclear plants or projects involved	12	11	14

Source: Price Waterhouse

POTENTIAL ABANDONMENTS

Company	Generating unit(s)
American Electric Power Company, Inc.	Poston 1 & 2, Zimmer
Central Hudson Gas & Electric Corporation	Nine Mile Point 2
The Cincinnati Gas & Electric Company	Zimmer
The Cleveland Electric Illuminating Company	Perry 2
The Dayton Power and Light Company	Zimmer
Duquesne Light Company	Perry 2
General Public Utilities Corporation	Three Mile Island 2
Long Island Lighting Company	Nine Mile Point 2, Shoreham
Middle South Utilities, Inc.	Grand Gulf 2
New England Electric System	Millstone 3, Seabrook 1
New York State Electric & Gas Corporation	Nine Mile Point 2
Niagara Mohawk Power Corporation	Nine Mile Point 2
Northeast Utilities	Seabrook 1
Ohio Edison Company	Perry 2
PacifiCorp	Washington Public Power System 3
Philadelphia Electric Company	Limerick 2
Rochester Gas and Electric Corporation	Nine Mile Point 2
The Toledo Edison Company	Perry 2

Source: Price Waterhouse

Acid rain recommendations . . . from page 1

Spokeswoman Elizabeth Agle said the administration should call for immediate reductions in plant emissions.

"We're very dismayed that it's not a call for actual reductions," she told *EL&P*, "It's not enough to say acid rain is a problem."

Edison Electric Institute spokeswoman Susan Wallace said the industry supports the clean coal technology aspect of the recommendations. She pointed out that through the Electric Power Research Institute, electric utilities already have spent $500 million on clean coal technology development. She added that the industry has committed to spending $589 million more by the end of 1989.

Specifically, the report calls for the U.S. government to provide half the funding ($2.5 billion) for projects that industry recommends and is prepared to contribute the other half of funding.

It states that the government should fund the projects that have the potential for the largest emissions reductions. If projects are similar, the ones that can reduce emissions the cheapest should be picked first. Also, the report recommends giving more consideration to projects that demonstrate retrofit technologies applicable to the largest number of existing sources, especially ones that contribute to transboundary air pollution.

According to the joint report, special consideration should be given to technologies that can be applied to facilities dependent on the use of high-sulfur coal.

Panel to be created

Headed by a senior Cabinet official, the envoys recommend creation of a panel to oversee the program and select the projects to be funded. According to the report, the Environmental Protection Agency and the U.S. Dept. of Energy will provide technical expertise. Other panel members will be taken from the State Dept. and state governments. Canada also will be invited to send a panel member.

The report also recommends that methods to measure dry deposition be developed. And, that research should be accelerated to investigate the link between forest and tree decline and and acid rain.

In his letter, Lewis said there is significant uncertainty regarding the extent and nature of acid rain. "We are unsure of the size and significance of the ecological and economic losses now being experienced," he wrote.

About one-half of the acid rain affecting Eastern Canada originates in the U.S., says the report. "Overall," cited the report, "the U.S. exports about four times as much SO_2 as it imports from Canada each year."

The envoys state that natural emissions of sulfur and nitrogen compounds in the U.S. are relatively insignificant contributors to acid rain. "Clearly," the report finds, "man-made emissions of sulfur and nitrogen compounds contribute far more to acid rain in the U.S. than natural sources."

It said the major sources of U.S. sulfur emissions are coal-fired electric plants, industrial boilers and processes, and ore smelting.

NOx emissions come from vehicles and industrial fuel combustion, found the report.

However, the report points out that U.S. sulfur emissions are declining. Electric utility SO_2 emissions dropped 19 percent between 1973 and 1983, and industrial emissions fell by 46 percent.

DP&L announces planned restructuring

DAYTON, OH—Dayton Power & Light Company (DP&L) announced planned restructuring in January that will result in the formation of a new holding company.

DPL Inc. would become the parent of DP&L. The utility said the planned reorganization will take place by the end of April, if approved by stockholders at an April 10 meeting.

DP&L President and Chief Executive Officer Peter H. Forster said, "The new holding company structure will provide long term advantages to Dayton Power & Light's shareholders, customers and employees through increased organizational and financial flexibility."